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Assessment Procedure Must Be Modernized

The First Attack in the War on High Real Estate Taxes Should Be Made at the Root of the Trouble—Assessments

By ROBERT H. ARMSTRONG

ALL kinds of taxes elicit protests from taxpayers. It has always been that way. But the real property tax gets hit by public officials, tax commissions, economists, and others, as well as the taxpayer.

We get protests in bad times and good times. For instance, New York State in 1930, established a Commission for the Revision of the Tax Laws. In the statute establishing this Commission, the Legislature specifically instructed it to suggest a system of taxation which would "relieve the present sources of taxation —particularly real estate—which now bear a disproportionate part of the whole tax burden of the State."

Was anything ever done? Well, the Commission let go with some plain and fancy *words*. There was much talk, but nothing ever happened. New York is not an isolated case.

Property taxes were generally thought to be far too high in good times, so what must they be today? Let's consider the *elements* of realty taxes. There are three: the first is the *assessment;* the second is the *tax rate*;. and the third is the *gross amount of taxes* paid as a result of the first and second.

There have been changes in all three elements during the past years. But how have they changed in comparison with the most important aspects of our national economy?

For purposes of comparison, I have chosen *population, national income, the wealth of the United States on a gross and per capita basis, the mortgage debt, and industrial production* (See chart.)

PRACTICALLY all of the material comprising this issue represents views expressed at the first National Real Estate Tax Conference held in Washington, D. C., April 25 and 26 and sponsored by the Mortgage Bankers Association of America and four other national groups. This leading article by Mr. Armstrong attracted considerable attention at the meeting. The author is President of the Ely Economic Foundation of New York.

I began with 1880, because prior to that time we did not have much statistical data. Furthermore, it was just about then that our industrial era started.

The first thing to deal with is population. In 1880 it was about 50,000,000; in 1939 it was about 130,000,000, an increase of slightly more than *two and one-half times.*

The wealth of the country increased from $43,642,000,000, to about $325,000,000,000 last year, or an increase of about *seven and one-half times.* The wealth per capita rose from $870 in 1880 to $2,461 last year, roughly *three times.*

The national income went from $7,277,000,000 to $62,450,000,000, in 1938, roughly an increase of little less than *nine times.*

Then, we come to the question of assessments. The assessments of real estate in the United States in 1880 were $13,000,000,000; but according to the Department of Commerce last year the real property assessment at the end of 1937 was $111,306,000,000. Here we have an increase roughly of about *nine times.*

Now consider *mortgage debt and taxes.* The mortgage debt in 1880 is pretty much of a guess. In 1900 we know that it was only $6,171,000,000, and it seems likely that around 1880 it was about $2,000,000,000. In 1939, however, the mortgage debt was about $36,000,000,000, an increase of about *eighteen times.*

The last element is *taxes—property taxes.* This is, should I say, the *piece de resistance.* The real property taxes of the United States in 1880 were $314,000,000. In 1930 they amounted to some $5,026,000,000, and estimates for the present are still around the $5,000,000,000 mark, an increase of *sixteen times.*

Now look at per capita costs of property taxation. In 1913 financial statis-

tics of cities show that the per capita yield for municipal purposes was $17.82; in 1928 it was $46.67; and in 1932 it was $45.57. In 1935 the yield jumped to $46.72; in 1936 it was $45.83; and in 1937, the latest report dated April 3 of the Department of Commerce, tells us that it was $46.91.

During the past three years since 1937 the tax rate has gone up still further, so that now *it is between $48 and $49 per capita*. Here we find real estate sorely beset on the income side of the picture with decreased rentals and net income because of economic conditions.

On the other side of the picture we find the towns, municipalities and cities throughout the nation *raising the ante when it comes to taxes*.

Yes, assessments have gone down slightly since 1930, but our city fathers have taken care of that by boosting the tax rate to inconceivable limits. It is not unusual to find taxes in many of our urban communities ranging from ten to twenty percent of the sales value of property. Granting that tax limitation is not always desirable, is it any wonder that it is asked? No matter how you figure it, the fact stands out that real estate taxes have increased at a far greater rate than have any of the component parts of production and consumption in this economy of ours.

You cannot evade that obvious fact. Is it any wonder people say "What is the matter with real estate?"

I venture this prediction: As long as real estate remains debt ridden — for the debt figures are almost as startling as are the tax figures—and taxed the way that it is today, there is no comeback for it and neither will there be any comeback for our urban centers which are suffering so terrifically from decentralization.

We must consider the assessment structure which, in the last analysis, is the base on which the tax rate rests. There is little doubt but that the structure of assessments, (and the assessor himself!) has not kept pace with modern appraisal knowledge and technique.

Before Scientific Valuation

Up to the early part of this century, the science of the valuation of property was a relatively simple one and refined methods of valuation were not particularly necessary. After all, the population was growing by leaps and bounds, we were pursuing a sort of a South Sea bubble speculation in land, and the good old increment was forever going upward, upward, upward.

Up to 1900 or 1910, in urban communities the twenty-five foot lot, with the depth of one-hundred or one-hundred fifty feet, was considered, and justly so, as a standard of value. However, the twenty-five foot lot has, so to speak, gone with the wind. It is no longer an economic unit. It was formerly possible to build a twenty-five foot house, a multi-family house, or even a small twenty-five foot loft or office building, but that can no longer be done.

ALMOST nothing exerts a dead hand influence on real estate so much as high taxation. And back of high taxation is unfair outmoded assessment practice, relic of a bygone day. Mr. Armstrong knows his subject thoroughly and has written an able analysis of what's wrong and what should be done to affect a remedy. We should have state control of assessments. Assessment methods must be brought into harmony with modern appraisal technique. Assessors should not hold office by appointment. They should be elected for life with retirement at 65. Assessments should reflect market values and income. Reassessment of all property should be made biennially. These are some of the proposals Mr. Armstrong makes; and, it would seem to us, they make sense.

Modern technique has made it possible to produce and rent a one-hundred foot building at a cheaper unit cost than a twenty-five foot building. The present tendency is toward buildings of one-hundred or one-hundred fifty feet frontage, and even larger.

I think we can see the handwriting on the wall when we look at the gigantic FHA developments. The cost of building and of supplying heat and multiple services now considered a necessity, is far *less per unit* in large buildings than it is in small ones. Yet we find the unit of measurement used by assessors to be twenty-five feet when that unit of value today should possibly be *at least one-hundred feet*.

The same thing is true for the depth tables that are used. They're out of date, too. Modern trends in construction have taken care of that. Tables give the value of a fifty-foot depth at about seventy percent of a one-hundred foot depth plot. But today, in all parts of our cities, the lack of a fifty-foot rear may and probably does mean the difference between creating a six, or a nine, or a twelve-story building and erecting a taxpayer.

Assessor with a Hoe

A plot in the center of Los Angeles or Chicago or New Orleans or New York, twenty-five feet front by twenty-five feet in depth, may be worth only ten percent of a full depth plot. Nevertheless assessment tables used give this plot a value usually of nearly fifty percent.

Yes, the assessor of both urban and farm lands may be trying to keep pace with modern economic life, but he is using a hoe when he should be using modern machinery and equipment.

Now look at depreciation. Buildings wear out and die—even as we do—but does the assessor recognize this? In general, assessors and assessing boards are quick to follow the upswing of business and values, but they surely seem to have blank spots in their minds when declining values occur. For instance, in many old areas of New York, (and this holds true for Boston and other cities, too) assessments are often as much as fifty percent higher than are values evidenced by current prices over the last few years.

Probably one of the most important criticisms of correct appraisal practice is that assessors do not take *income* into consideration in assessing property. The value of income producing property *rests on income*. We must consider the fact that the renters of property are *increasing*, while the number who own their own homes and farms is *decreasing*.

In 1880, seventy-five percent of the farmers owned their own farms. In 1930, the figure was fifty percent. Today the percentage is something over forty percent. Home owners are on the decrease in our cities. Income properties are increasing, and because we do not have unearned increments as heretofore, income is possibly and probably the most vital and important element in the valuation of real estate at the present time.

But, as the trend has been going toward income-producing properties, has the assessor kept pace with present trends and tendencies? He has not! As to the assessment structure, it is interesting to record how various cities have met the decline of property values dur-

ing the past ten years. In those cities where assessments were below the value of property, there was *little reduction* of the assessments. Most cities preserved their assessment structure and many are still preserving structures that might have been good eight or ten years ago, but are useless today.

For instance, in the Borough of Manhattan, which is the central part of New York, January and February sales prices of this year were but 78.6 percent of the assessment of the properties sold. In 1935, selling prices were 86.6 percent of the assessed value; in 1936, 79 percent; in 1937, 83 percent; in 1938, 79½ percent; and last year, 1939, 75½ percent.

Cash sales in Manhattan today average only 60 to 65 percent of the assessed valuation at this time. In other words, the assessments are about 50 percent more than are the values of the properties.

The Model City

In Cincinnati, the assessment procedure is unique. The City's Government is probably the finest in the country. According to the laws of Hamilton County, in which Cincinnati is located, the auditor is required each six years to appraise all property for tax purposes. In 1931, the Cincinnati Real Estate Board directed the entire appraisal of land in Hamilton County and advised the auditor in the building appraisals. After the appraisals of 1931, the auditor of Cincinnati arbitrarily made three 10 percent reductions on land values at the suggestion of the Real Estate Board and two successive 10 percent reductions on the value of buildings.

The relationship of tax value to sales value in Cincinnati is difficult to evaluate, but the Cincinnati Real Estate Board has advised me that the assessment of residential property ranges from 80 to 110 percent of sales value; business properties from 70 to 90 percent; industrial properties from 60 to 90 percent; and agricultural properties from 60 to 80 percent. This is quite different from New York where assessments are high, the tax rate is high, and the City of New York is merely struggling along on a day-to-day basis in order to keep its debt limit as required by law under 10 percent of the assessment of real estate.

We must recognize situations and call a spade a spade. My observation is this: If ordinary real estate appraisers pursue the same methods of valuation which assessors pursue in many instances, I'm afraid that the real estate appraiser would be called dishonest. I live in one of the suburbs of NewYork. In that town assessments are about 50 percent higher than the sales value of property over the past five years. The assessors are men above the average, and during the past few years have reduced assessments about 15 percent. But I doubt if there will be further reductions in the near future. We have in New York State a system of state aid whereby the state refunds to communities taxes collected by it.

But how is the refund made? It is on the basis of assessments. The higher the assessment, the higher is the amount of refund procured from the state. Therefore, if my town cuts its assessments, it receives less state aid than it would if it held up assessments even when assessments are 50 percent over the market value of realty. I have had discussions with some of them on the subject, and I say here that I do not blame the assessors too much. We have gotten ourselves into a situation where a different code of morality and honesty—shall I say sub-marginal—is expected from those in public office than is expected from those in private life.

The very effect of the over-assessment situation in cities like Boston and New York is undermining the moral wealth of the country today. That sort of thing cannot go on. It must stop sometime, and it might as well be now.

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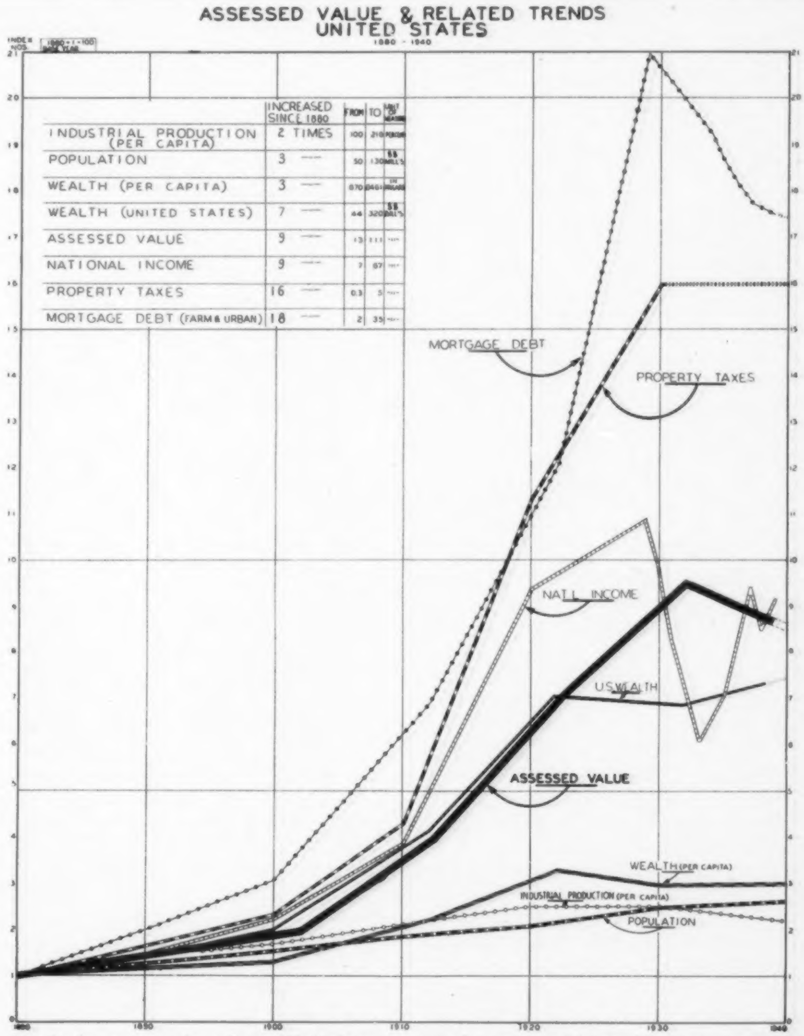

Here's the story in chart form. With the exception of mortgage debt, nothing went up so fast and so far as property taxes. Yet mortgage debt has come down, you will note—but property taxes have remained just about where they were since 1930!

The Case for Tax Limitation Today As I See It

In Tax Limitation Laws Property Owners Have the Means by Which They Can Avoid a Greater Share of Governmental Costs

By MYERS Y. COOPER

LAND distribution, the evidence of growth and progress, has been slowing down, and capital invested in property is frozen, when it should be liquid. Home ownership, the boast of our American life and the most dependable of all investments, is losing ground—falling behind population increase—until today only 40 percent of our citizens are in the property ownership class.

We have permitted taxes to be levied on property in a cumulative manner without regard to income or value, and without serious effort being made to shift unjust burdens to other forms of wealth, which have somehow managed to escape their rightful share of government contribution. We need to open our eyes as to what is *happening to real property.*

Sixty years ago, three-fourths of the people lived in rural communities. Today that situation has been completely reversed, with three-fourths of the people now urban dwellers. That shift of population has imposed tremendous burdens on municipalities.

That is why there has been so much distress in many communities where services cannot be met under the existing property tax.

We cannot stand idly by and see the soundest of all values, the yardstick for all values, taxed out of existence or until it is no longer an asset, but rather a liability to the property owner and simply a defaulting asset to a municipality.

Time and again revaluation has been virtually ordered on a basis of budgetary needs, rather than a normal or reasonable value of property—and by that I do not mean depression levels or inflation levels as a yardstick of values.

If we are going to recreate interest in home ownership and the ownership of farm lands, we must attack this question where the real economic jam occurs and pull the key-log of exorbitant real estate taxes, and thus permit the flow of better business by increased building.

We know that the *pyramiding of taxes on real estate* is a basic hinderance to recovery, and that the economic effects are felt by every direct and indirect taxpayer in the community when real estate tax delinquencies mount as they have been doing in virtually every subdivision of every state in this Union.

IN our first article Mr. Armstrong attacked the problem of a worn out assessment procedure; in an article in the next issue an authority throws some light on how property should be valued for tax purposes. Here Mr. Cooper takes the stump for Tax Limitation. He tells how it has worked out and why he feels that in it lies the basis for correcting many of the evils that plague real estate today. He wants taxes levied on the basis of earning power. He wants property relieved of tax duplications. He wants a ceiling over real estate taxation. He wants independent tax agencies in each state — agencies that can impartially review and correct abuses in tax matters. He wants them—and so do other property owners. Mr. Cooper is a former governor of Ohio and made the opening address at the National Real Estate Tax Conference.

We have local real taxes amounting to 4½ BILLION dollars. To this must be added the various other taxes, such as state and federal income taxes, which, combined with mortgage interest in many instances, would take all of the gross income of the real property, if taken as a unit.

It is well to remember that the Federal Government has more than a passing interest in real property since it is in the real estate business in a big way, even though this interest may be in the realm of education, social responsibility or for the purpose of economic stabilization.

The Federal Government is guaranteeing large loanable funds placed on property. It is in real slum clearance and it is in what appears to private enterprise, a venture on a big scale in a building development where the profit incentive might well be the motivating influence.

The FHA, if my figures are correct, has taken over around 1200 houses; and the HOLC has taken over around 160,000 houses, and has sold 53 percent of these.

Add to these properties the thousands of houses and farms owned by finance organizations throughout the country, and it will not be difficult to understand the part delinquent taxes have played in these forefeitures.

The cost of municipal government cannot be maintained by government tokens amounting to about 3 percent on the taxable value of real estate in areas which do not justify such a subsidy, while burdening the individual taxpayers with an 18 percent tax load.

There is certainly not the slightest reason why public income property in the profit zone should not carry its share of the tax load instead of passing it along to the individual property owner who is already denying his family living essentials in order to meet tax requirements.

Large government housing projects built without reference to real slum clearance, may work a serious hardship on three fronts:

1. On existing taxpayers who must carry the added service costs essential to the maintenance of municipal government, which the government does not pretend to pay.

2. Driving private capital from the real estate investment field, since it will not, and cannot, compete with the government which it supports.

3. The failure to meet social needs which was the primary objective of the government housing program, as it moves into the investment field and the discouragement of prospective home buyers by providing less than cost subsidy housing.

Now if we are going to lend encouragement to the ownership of property, we must discourage the disposition to load property with confiscatory tax burdens. We have got to see to it that the cost of government is reduced by the only way it can be reduced, and that is by reducing Governmental expenditures.

High Taxes — Farm Troubles

It is high taxes that has had as much or more to do with putting 200,000 farms on the auction block as the result of mortgage foreclosures during the past ten years, than that of any other difficulty which has beset their investment.

Real property is always a shining mark for the tax spenders for the reason that it is easy to tax and usually gets caught in two directions, high valuation and high rates of taxes. On top of that is the ever recurring bond issue to satisfy the tax spenders' greed.

In a recent Gallup poll, it was reported that 25 percent of the people think they pay *no taxes*. Everyone pays taxes whether they know it or not—34½ percent of a house rental bill is taxes, and 28 percent of business property rental is taxes.

The average amount of rental tenant bill in 1933 was $317 and of this amount $95 represented taxes. It is no less today.

Thus it can be seen that when we make a fight for reasonable taxes, we make it for not only every owner, but also for every renter in the land.

In many states it has been well determined that the owners of real estate have been paying 25 percent more taxes than owners of other forms of wealth of equal value. It is also a fact that property is assessed, in many instances, on a valuation of as much again as the marketable value of the property. When taxes are paid on a fictitious value, you are actually *liquidating* the property.

Consideration of the first 900 sales in Boston in 1939 develops the astounding fact that they averaged only 49 percent of the existing tax values of the properties. That means simply this: That the owners of these properties were paying taxes on 51 *percent fictitious valuation*. Other cities' experiences reflect similar abuses.

Certainly we cannot permit a situation of this kind to go on driving people who have money to invest in homes, farms and other properties, away from the soundest investment of all.

It is not a complete answer to the real estate tax question to simply *equalize* real estate's contribution to the cost of government as related to other forms of wealth.

Every increase of borrowed money today on the part of the government—by that I include all divisions—involves an *added tax burden* in the future. Every tax burden affects the economic system.

In Ohio, where we set about establishing a ceiling for relieving the property tax, a lot of high-minded lawyers devoted their time and interest to preventing tax relief for farmers and property and home owners, on the plea that it was going to cripple public service.

When I see smart lawyers worrying when it is proposed to reduce the cost of government by limiting easy sources of revenue—well, I have a suspicion that they have chickens in their hen-house that don't belong there.

We voted to search the coop by adopting the Ten Mill Tax Limitation and none of the dire things predicted, such as government collapse, happened.

Before we adopted this limitation in 1933, we had two hundred million dollars in defaulted real estate taxes. This has *not* increased but we are *still worrying with that delinquency*.

We had been experimenting, without any great success, with limitation since 1911 when the Smith 1 percent law was adopted.

It was enacted in the belief that a lower rate would cause sufficient increase in the listing of personal property to enable a reduction on real estate. It was an attempt to bring personal property *out of hiding* and make it share in the burden of government.

Personal Property Taxes

Many people, however, are highly sensitive as to declaring for tax purposes property other than real estate.

However, this law had numerous loop-holes permitting violations which resulted in a 45 percent valuation in some districts, and as high as 75 percent in others. That situation is general today throughout the country.

Moreover, it did not compel or capture intangible values which escaped almost entirely.

Borrowing to meet current operating expenses was general under this Smith Law, and in 1921 more than half of the average city and village tax dollar went to pay interest on existing indebtedness and for sinking fund purposes. There was this to be said about the Smith Law: With all its weaknesses it did make the people of the State sensitive to the possibility of tax limitation.

Ten Mill Limitation

Then a law was enacted putting a stop to the issuance of bonds for operating expenses without a vote of the people.

Further experiments and some improvements were made from 1921 to 1933 holding to the principle of tax limitation, when our present ten mill, or 1 percent limitation was adopted.

The ten mill, or 1 percent tax limitation provides:

"No property taxed according to value shall be taxed in excess of 1 percent of its true value in money for all state and local purposes, but laws may be passed authorizing additional taxes to be levied outside of such limitation, either when approved by at least a majority of the electors of the taxing district voting on such proposition, or when provided for by a charter of a municipal corporation."

Ohio derives no revenue from real property taxation, nor is there a state income tax. Various subdivisions were unable to retrench with property tax reduction to the extent they could absorb the loss. Nor were they expected to do so—the fight was made to broaden the tax base, reduce the cost of government and thus relieve real estate of its unjust burden.

Two alternatives were possible. The legislature could enact a replacement tax and distribute the amount collected by the state to the local subdivisions losing revenue due as a result of limitation.

The other alternative was the voting of levies outside the limitation. Both have been exercised.

The Ohio sales tax was enacted as a replacement tax. It added approximately $49,000,000 in revenue.

Thirty-seven million dollars were saved to property owners in the first year's operation of the ten mill constitutional amendment.

When the ten mill limitation was adopted, it meant the assumption of certain liabilities by the State and it was necessary to establish a school foundation to aid our educational system.

(Continued on page 8)

Association ACTIVITIES

★ NEWS OF WHAT'S HAPPENING AMONG MBA MEMBERS AND OUR LOCAL ASSOCIATIONS

ILLINOIS MBA IS ORGANIZED

MBA's newest local group is the Illinois Mortgage Bankers Association, organization of which was completed at a meeting in the Pere Marquette Hotel in Peoria under the direction of MBA Secretary George H. Patterson. A. E. Streitmatter of the Alliance Life Insurance Company of Peoria has been elected first president.

The group has affiliated with MBA. Initial membership consists of 22 firms.

Other officers include: A. H. Seise, Northern Illinois Mortgage Company of Rockford and W. C. Rainford, Mercantile Mortgage Company, Granite City, vice presidents; and M. A. Pollak, Draper and Kramer, Inc., Chicago, secretary and treasurer. These, with E. F. Cramer, First National Bank & Trust Company of Galesburg; M. B. Stine, First National Bank of Danville; and O. H. Mendenhall, Equiptable Life of Iowa, Decatur, will constitute the organization's first board of governors. Committees appointed include:

Membership: A. H. Seise, Northern Illinois Mortgage Co., Rockford, chairman; J. H. Finnegan, Mercantile Mortgage Co., of Peoria; Nyle H. Large, Baughman & Large of Taylorville; Elgin H. Manhard, Ohlweiler-Manhard of Rock Island; and M. B. Stine of Danville.

Legislative: E. F. Cramer, First National Bank & Trust Co., of Galesburg, chairman; R. L. Fosberg, Third Securities Corporation of Rockford; Tom Merritt, Tom Merritt & Company of Hoopeston; E. S. Waldmire, Bernard Investment Co. of Springfield; and H. H. Nooner, Mercantile Mortgage Co. of Olney.

Program: Sylvan L. Olson, Commercial Merchants National Bank of Peoria, chairman; Herman D. Froning, Equitable Life of Iowa, Peoria; and Jack W. Noel of Champaign.

Constitution and By-Laws: W. C. Rainford, Mercantile Mortgage Co., of Granite City, chairman; John C. Roe, H. A. Roe Co., Inc., of Dixon; E. J. Tupper of Galesburg.

Nominating: O. H. Mendenhall, Equitable Life of Iowa, Decatur, chairman; F. Jay Decker, F. Jay Decker Realty Co., of Peoria; and I. C. Stanley, Stanley Securities, Inc., of Chicago.

According to Secretary Patterson, the Illinois group was organized primarily to work in cooperation with the Chicago Mortgage Bankers Association so that the mortgage interests of the entire state will be fully represented in legislative and other matters pertaining to this field of banking.

The credit for the new chapter goes to M. A. Pollak, Vice President of Draper & Kramer, Chicago, who was active in the preliminary work leading to organization.

According to Secretary Patterson, establishment of this chapter has a special meaning for certain of our other large local associations. He believes that, regardless of how strong a local group may be such as our Detroit and Twin Cities associations, a state group has a very definite place.

For example, in Illinois the CMBA had done some particularly fine and worthwhile work in recent years on behalf of mortgage banking. Yet, being limited to metropolitan Chicago, it obviously could not speak for mortgage bankers all over the state nor could it pretend to represent them.

The Illinois MBA will correct that and now, for the first time, Illinois mortgage bankers have two strong and able organizations through which they can get action on any matter vital to their interests.

CMBA'S SPRING MEETING IS SCHEDULED FOR MAY 9

W. A. Clarke, President, W. A. Clarke Mortgage Company of Philadelphia and MBA Board Member, will address the spring dinner meeting of the Chicago Mortgage Bankers Association scheduled for May 9th. Guest speaker is Mark A. Brown, Vice President, Harris Trust and Savings Bank of Chicago, who will talk on "Are You an Asset to Your Business?" Mr. Clarke will speak on "Your Mortgage Bankers Association." Maurice A. Pollak, Draper & Kramer, Chicago, will discuss

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Officers of the newly-organized Illinois MBA: Seated (left) A. E. Streitmatter and M. A. Pollak; standing (left) A. H. Seise and W. C. Rainford.

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MAY 1, 1940

A Case History in Taxation

If, by the time you get this far into this issue, you still want to read some more on real estate taxes, here is a *case history*.

It concerns a group of all properties on a certain street in a principal merchandising district in a typical American city of about 290,000 people. It covers the eleven years from 1928 to 1938 inclusive as taken from tax records.

In 1928 the consolidated net income of the properties was approximately $723,000 and property taxes upon them required about $251,000, leaving the owner a net return of approximately $472,000.

On the assessed valuation this is a return, after taxes, of about 6.3 percent.

In 1938, however, the same properties showed a consolidated net return of approximately $210,000. Yet property taxes upon them totaled $212,000, leaving the owners with a net loss of $2,000, *and no return whatsoever*. The assesed valuation of the properties that year was over $5,000,000. The loss, after taxes, was .05 percent on the valuation!

When 51 property owners on the street protested the 1938 assessment, the court held the property in the test case assessed at more than double its value, gave judgment for a tax refund, emphasized that "net income is a most important factor to consider in arriving at the actual value and potential market value" of such a property.

But court appeals, practically out of the question for the average individual owner of a small home or farm or small business property, should not be necessary to establish what the judge in this case held, which was that constitutional and statutory requirements about tax procedure are intended "as a protection to the taxpayer, to prevent" assessment "which will deprive him of the ownership of his property, or require him to maintain that ownership at a loss or at such a small return as is unfair" in comparison with other cases.

Multiply that situation by the 25,000,000 owned and rented city and farm houses in the United States and by our hundreds of thousands of business and industrial and other income properties. Add the results, which in some states have meant the taking over by the state of a third or more of its areas for unpaid taxes. Add also the very different results in certain states, such as Washington, where in the past nine years, despite the tremendous added costs of relief, major adjustments of the tax structure have cut property taxes nearly in half, with consequent strengthening of municipal and educational revenues, property values and general economic outlook.

Add these up and it seems conclusive that it is high time a broad offensive was started against high property taxation.

And speaking *further* of taxes (this is about the *last* word on taxes this time), property tax deliquency, while still far from healthy, showed considerable improvement last year. Dun & Bradstreet have just issued a study on the subject which shows that delinquency last year was the lowest since 1930.

Not only did the results last year mark the sixth consecutive year of improvement, but the average city closed the year with a lower percentage of its current levy uncollected than in 1930, and some cities equalled or exceeded their best previous records, the agency reports.

The upward surge of business in the latter part of 1939 not only contributed to very general progress in the collection of currently levied property taxes, but added new stimulus to the collection of taxes in arrears.

Total collections of current and delinquent taxes in the average city, consequently, slightly exceeded the amount of the current levy. This was a reversal of the situation in the previous year, when total collections dropped below the current levy for the first time in four years.

The average current tax delinquency for 150 large cities in 1939 was 9.2 percent, compared with 10.7 percent in 1938, a peak of 26.3 percent in 1933, and 10.1 percent in 1930.

While, on the whole, the tax delinquency record at the close of 1939 is reassuring, there should be some reservations in the making of comparisons between 1939 results and predepression experience.

A considerable amount of aid in the re-establishment of good records has come through the removal of unproductive property from the tax rolls, foreclosures by institutional mortgage holders, assistance from the Federal Government, and adoption of such tax relief gadgets as homestead exemptions and tax rate limits.

CMBA SPRING MEET

(*Continued from Page* 6)

briefly the new Illinois Mortgage Bankers Association.

This meeting marks the half way point in the CMBA year under Ferd Kramer as president and members are agreed that it has already been one of the Association's most profitable years. Divisional meetings have been held monthly with attendance usually around 100 and never less than 75. CMBA is hard at work preparing for the annual MB Convention October 2, 3 and 4 and it will not be long before plans for it begin to appear in these pages.

"Our tax system itself, and particularly our rigid property tax, is prolonging the depression. Largely through a series of developments that were never remotely anticipated by the original framers of our system of property taxation, we have gotten ourselves into a situation which is going to require prompt and vigorous action to avert disaster. We have pyramided the growing costs of municipal and local government substantially upon one category of taxpaying capacity, namely, real estate. Upon this we have imposed a fixed charge of from 2 to 3 percent, which must be paid, year in and year out, regardless of income, business, or the financial status of the property owner. The result has been billions of dollars of delinquent taxes and wholesale forfeitures of property to the state."
—*Herbert D. Simpson, professor of public finance, Northwestern University, at the National Real Estate Tax Conference.*

The HOLC View of High Taxes

By F. B. Bourland

Mr. Bourland is Illinois State Manager of the HOLC and spoke at the National Real Estate Tax Conference. He studied the diversity of the tax load imposed on 1,100 properties in six Middle Western communities. What he found is told here.

Variation in the average gross rental income per thousand dollars of valuation in these six communities studied is not large, being only 15 percent from the lowest average to the highest average. But when it comes to taxes, the variation per thousand dollars of value, from the highest to the lowest, is over 80 percent. The inevitable result, on properties which are exactly comparable in every other respect, is a lower market value in the city with the higher tax.

Homes of almost identical utility within the price range of $3,000 to $3,500 showed in some the tax per $1,000 of value per month is 62c and in others $1.94. On exactly comparable properties this is a variation of over 200 percent. The amount of the tax added to the financing charge in the first case is $2 per month and in the second case $6.60. On this basis the economic difference in value of the two properties could scarcely be said to be less than $1,000.

Those mortgage lending institutions which, in selling their repossessed properties, are safeguarding their contracts by adding to the monthly payments of the home purchaser one twelfth of the annual tax on the home are finding particularly noticeable the effect which variations in taxes are now making on the salability of a property.

The HOLC, for example, has, in a city of some 40,000 population, a house the valuation of which is $8,550. The house rents for $40 per month. Taxes are $345 per year, undoubtedly based upon a presumption of high land value that does not exist. A buyer of this property under our HOLC terms at only 4½ percent interest on the balance due would be required to pay on this property $90 per month, or two and a half times its present monthly rental value.

MYERS Y. COOPER'S ANALYSIS OF TAX LIMITATION

(*Continued from page 5*)

I realize that there are many well-intentioned people who oppose tax limitation. The opposition is based on fear rather than factual possibilities of crippling the public service.

They have not taken the trouble to study the situation from the standpoint of confiscation of property on the one hand, and the exploration of non-contributing taxable values, to say nothing of the consideration of the tax question as a sound business proposition.

When you reduce government cost and broaden the tax base through limitation, you do not cripple public service—you establish a dependable income to maintain government functions. Our own experience in Ohio justifies this statement.

Without running counter to the principle of tax limitation, there is a growing interest in taxing property on a basis of actual income which is not only a sensible plan but an equitable method by which to arrive at a sound principle.

Seven Suggestions

It would not be a difficult matter to determine the income of investment property or fair income value of homes or vacant land based on a percentage of what the tax would be if adequately improved.

We are not here looking for any loopholes whereby property can escape its rightful share of contribution to local or municipal government, but to develop a sound forward-looking program wherein property shall participate to the extent of its fair and just responsibility, and *stop at that.*

1. Reduce the cost of government by a prudent spending of public money.
2. Put government income property on the same tax basis with private enterprise.
3. Give full consideration to the value of tax revision, based on earning power of property.
4. Relieve property of tax duplications to prevent confiscation of earnings and values.
5. Set up in every state in the Union an independent tax agency clothed with authority to review and adjust inequities and to control indebtedness proposals.
6. Put a ceiling on real estate taxation in order to limit unbridled spending in the public service.
7. Encourage, through adequate guarantee of loanable funds, improvement of existing properties, thus increasing tax income and taxable values.

ASSESSING TODAY

(*Continued from page 3*)

And what have I got to suggest? Just these points:

(1) We can improve our methods of assessment, of that there is no doubt. In the first place, there should be *state control of local assesssment.* Some years ago the Brookings Institution advocated this. It is more than likely that state administration of assessments will remove real estate assessment from the field of political expediency.

(2) The methods of assessment must be brought into harmony with modern appraisal technique. Appraisal standards of fifty years ago are not applicable today, and the assessor must modernize his plant and structure if he is to function efficiently in the modern economic state.

(3) Assessors cannot, and must not, hold office by appointment and at the pleasure of any local official or for any short term of office. Assessors should be made to pass comprehensive examinations and to be placed in office for life terms with retirement being affected at the age of about sixty-five. This will remove the assessor from the influence of political expediency.

(4) Assessments should reflect *market values and income,* and reassessments of all property *should be made biennially* so that the assessment structure may reflect rapid changes in our economic situation. The holder of intangible wealth does not pay as much taxes when times are bad when they are good, and the holder of real estate should not be asked to pay present taxes on assessments based on conditions of five or ten years ago.

"It is my opinion that education should be financed from current income. Should it ever become necessary, due to failure of this source, to establish a capital tax, then that capital tax should fall upon all forms of capital and not upon property alone. The income received by property should be established and it should pay its share of the cost of education exactly in proportion with all other forms of income, no less and no more. — *Frank J. Murray, President, Taxpayers Federation of Indiana, at the National Real Estate Tax Conference.*

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